

**COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

Investigation by the Department of Telecommunications and Energy)
on its own Motion into the Appropriate Regulatory Plan to succeed)
Price Cap Regulation for Verizon New England, Inc. d/b/a Verizon) **D.T.E. 01-31**
Massachusetts' intrastate retail telecommunications services in the) **Phase II**
Commonwealth of Massachusetts)

**ATTORNEY GENERAL'S
THIRD SET OF DOCUMENT AND INFORMATION REQUESTS
TO VERIZON MASSACHUSETTS**

INSTRUCTIONS

1. These Document and Information Requests call for all information, including information contained in documents, which relates to the subject matter of the requests and which is known or available to Verizon New England, Inc. d/b/a Verizon Massachusetts ("Verizon" or "Company") or to any individual or entity sponsoring testimony or retained by the Company to provide information, advice, testimony or other services in connection with this proceeding.
2. Where a Request has a number of separate subdivisions or related parts or portions, a complete response is required to each such subdivision, part, or portion. Any objection to a Request should clearly indicate the subdivision, part, or portion of the Request to which it is directed.
3. If information requested is not available in the exact form requested, provide such information or documents as are available that best respond to the Request.
4. These requests are continuing in nature and require supplemental responses when further or different information with respect to the same is obtained.
5. Each response should be furnished on a separate **DATED** page headed by the individual Request being answered. Individual responses of more than one page should be stapled or bound and each page consecutively numbered.

6. Each Document and Information Request to "Please provide all documents..." or similar phrases includes a request to "identify" all such documents. "Identify" means to state the nature of the document, the date on which it was prepared, the subject matter and the titles and the names and positions of each person who participated in the preparation of the document, the addressee and the custodian of the documents. To the extent that a document is self-identifying, it need not be separately identified.
7. For each document produced or identified in a response which is computer generated, state separately (a) what types of data, files, or tapes are included in the input and the source thereof, (b) the form of the data which constitutes machine input (e.g., punch cards, tapes), (c) a description of the recordation system employed (including descriptions, flow charts, etc.), and (d) the identity of the person who was in charge of the collection of input materials, the processing of input materials, the data bases utilized, and the programming to obtain the output.
8. If a Document and Information Request can be answered in whole or part by reference to the response to another Request served in this proceeding, it is sufficient to so indicate by specifying the other Request by participant and number, by specifying the parts of the other response which are responsive, and by specifying whether the response to the other Request is a full or partial response to the instant Request. If it constitutes a partial response, the balance of the instant Request must be answered.
9. If the Company cannot answer a Request in full, after exercising due diligence to secure the information necessary to do so, state the answer to the extent possible, state why the Company cannot answer the Request in full, and state what information or knowledge is in the Company's possession concerning the unanswered portions.
10. If, in answering any of these Document and Information requests, you feel that any Request or definition or instruction applicable thereto is ambiguous, set forth the language you feel is ambiguous and the interpretation you are using responding to the Request.
11. If a document requested is no longer in existence, identify the document, and describe in detail the reasons the document is unavailable.
12. Provide copies of all requested documents. A response which does not provide the Attorney General with the responsive documents, and requests the Attorney General to inspect documents at any location is not responsive.
13. If you refuse to respond to any Document and Information Request by reason of a claim or privilege, or for any other reason, state in writing the type of privilege claimed and the facts and circumstances you rely upon to support the claim of privilege or the reason for refusing to respond. With respect to requests for documents to which you

refuse to respond, identify each such document.

14. Each request for information includes a request for all documentation which supports the response provided.
15. Provide three (3) copies of each response.
16. The terms “Verizon,” the “Company” or any other legal entity referenced shall be read to include any director, partner, board member, executive, employee, independent contractor, all witnesses, representatives, legal counsel or consultants of the named organization, unless the request specifically provides otherwise.
17. Please furnish each response on a separate sheet of paper, beginning with a restatement of the question and the date of the response.

- AG-3-1 Please refer to the Phase II August 28, 2002, testimony of William Taylor, page 12, lines 17 to 23:
- (A) Please provide the results of all Massachusetts specific cost studies that were reviewed by Dr. Taylor in the preparation of his testimony.
 - (B) Explain how the data provided in response to the prior response supports his position that economic efficiency would be improved if Verizon was provided with the flexibility to raise its local residential exchange rates.
 - (C) Please provide the results of all Massachusetts specific elasticity of demand studies that were reviewed by Dr. Taylor in the preparation of his testimony.
 - (D) Explain how the data provided in response to the prior response supports his position that economic efficiency would be improved if Verizon was provided with the flexibility to raise its local residential exchange rates.
 - (E) Dr. Taylor states that under the plan, rates “are more likely to reflect the cost of providing services...” Please identify each service included in the word “services,” and for each of these services, identify the current rates and cost of service.
- AG-3-2 In New Mexico Public Regulation Proceeding 3325, William Taylor testified that “In a perfectly competitive market, the price of any increment of service is driven to the full economic cost of that increment of service and is, therefore, economically efficient.” Direct testimony, August 18, 2000, at 9. The testimony is identified at page 29 of 33 Exhibit WET-1.
- (A) Define the term full economic cost.
 - (B) Provide the “full economic cost” of basic residential service in Massachusetts. Include in the response the supporting work papers and a narrative explanation of how this value was derived.
- AG-3-3 Please refer to William Taylor’s Phase II August 28, 2002, page 14, lines 16 and 17.
- (A) Please provide any analysis, other than the cited D.T.E. decision, that supports the proposition that residential rates are below their efficient level.
 - (B) Do you concur that the cost data cited by the Department in its Phase I Order at 100 (footnote 20 of Dr. Taylor’s testimony) was produced in the 1980s or early 1990s? If not, explain why not?
 - (C) If the answer to the prior question is affirmative, does Dr. Taylor believe that cost estimates produced in the 1980s or early 1990s provide useful information regarding the forward-looking economic cost of providing residential exchange service today? If so, explain why.
- AG-3-4 Please refer to William Taylor’s Phase II August 28, 2002, page 16, lines 23 to page 17 line 13.
- (A) Does Dr. Taylor believe that customer acquisition costs (e.g., advertising) are sunk costs? If not, explain why not?

- (B) Has Dr. Taylor prepared or reviewed any data that compares the customer acquisition costs of an entrant versus an ILEC's customer acquisition costs? If so, provide the estimate(s).
- (C) Does Dr. Taylor concur that an entry barrier exists when the potential entrants face costs greater than those incurred by a firm now incumbent in the industry?
- (D) Does Dr. Taylor consider customer acquisition cost to be an entry barrier? If not, explain why not. If so, please provide an estimate of the size of the entry barrier. Include in the response the work papers associated with the cost estimate.

- AG-3-5 Reference Taylor Direct, Reference Page 14, lines 14 to page 15 line 13.
 (A) Please provide Dr. Taylor's forecast for the annual rate of inflation for the years 2002 through 2006 inclusive. Provide an explanation of how the forecast was constructed and the underlying data used to construct the forecast.
 (B) Provide Dr. Taylor's estimate of how the forward-looking economic cost of residential exchange service is going to move relative to inflation over the next five years. Provide the basis for the forecast. To the degree to which he has separate forecasts for the dial tone and exchange usage, include in the response forecasts for each of these rate elements.
 (C) The annual CPI rate of inflation for the years 1997 - 2002 is 2.3%. This value was derived by using data available at the BLS web site: <ftp://ftp.bls.gov/pub/special.requests/cpi/cpiiai.txt> $\text{Ln}(180.1/160.5) / 5$. Why should a value of 5% be used, rather than the historical rate of inflation, 2.3%?
- AG-3-6 Reference Direct Testimony of William Taylor, August 28, 2002, page 3, lines 1 to 15.
 What are the efficient competitive price levels for basic residential service?
 (A) Provide all work papers associated with the calculations and identify the source of the data used in the calculations.
- AG-3-7 Reference Direct Testimony of William Taylor, August 28, 2002, page 4, lines 1 to 7.
 Explain why in light of the fundamental changes in the structure of the telecommunications markets in Massachusetts that have occurred since the passage of the 1996 Act, Dr. Taylor concludes that it is appropriate to rely on demand elasticity estimates from the pre-1996 period (see Verizon's response to AG-VZ 1-1, notes 2, 3, and 4). Include in the response an explanation of how the pre-1996 access and access + usage elasticity values reflect the "wide variety of fixed and mobile telecommunications services currently in demand."
- AG-3-8 Reference Direct Testimony of William Taylor, August 28, 2002, page 5, lines 18 to 20.
 (A) Are advertising and customer acquisition costs sunk costs? If not, explain why not?
 (B) If advertising costs are sunk costs, explain why Dr. Taylor believes that the level of advertising expenditures is virtually nil.

- AG-3-9 Direct Testimony of William Taylor, August 28, 2002, page 8, lines 18 to 20. Using the California energy crisis of 2001 as an example of imperfect competition, explain why imperfect competition treats customers far better than imperfect regulation. Include in the response a discussion of why the price manipulations associated with Enron are an example of how imperfect competition treats customers far better than imperfect regulation.
- AG-3-10 Direct Testimony of William Taylor, August 28, 2002, page 9, lines 8 to 10. Explain how the current regulation of residential retail rates prevent Verizon MA from finding out exactly the characteristics of communications services for which consumers are willing to pay.
- AG3-11 Please refer to Paula Brown's Phase II August 28, 2002, page 10, lines 9 to 16.
(A) Provide any additional information, other than the information cited at page 10, that was considered in the process of concluding that the price increase did not negatively impact residential subscriber penetration.
(B) Explain the degree to which the analysis reported by Ms. Brown controls for the simultaneous changes in the price of other telecommunications products, income levels, and autonomous shifts in demand due to changes in taste (e.g., increased interest in Internet access)?
- AG-3-12 For the following residential services, please provide the pricing history of the following residential products for the years 1995 through 2002 inclusive:
(A) call-waiting
(B) caller number identification
(C) 3-way calling
(D) voice-mail
- AG-3-13 Reference Paula Brown's testimony of August 28, 2002, page 7, lines 9 through 18. Explain and quantify how the "revenues from the sales of ... discretionary adjunct services [have been used] to dampen the impact on residential rates." Include in the response an estimate of how much higher in 2002 the rate for basic residential telephone rates would need to be relative to today's rates if not for the pricing freedom provided for adjunct services.
- AG-3-14 Reference Paula Brown's testimony of August 28, 2002, page 8, lines 3. Provide the historical average CPI data considered by Verizon. Include in the response the source for the information, and the data used in the calculation of the inflation rate.
- AG-3-15 Reference Paula Brown's testimony of August 28, 2002, page 8, lines 15 to page 9 line 4.
(A) Ms. Brown states that the residence dial tone line charges have historically been below the economically efficient level. Historically, what were the economically

efficient levels of the residence dial tone line charges? Provide all supporting work papers associated with the derivation of the rates.

(B) Ms. Brown states that under Ramsey pricing principles, the residence dial tone line charge would most likely have increased in light of increasing competition. In light of the alleged increasing competition, provide Verizon's estimates of the elasticity of demand for the different products that would be included in a Ramsey pricing calculation (e.g, dial tone, exchange usage, vertical services, intraLATA toll, intrastate switched access, interstate switched access, special access). For each product, identify if the estimated price elasticity is a short-run or long run value, the reason why a short-run or long run elasticity value was selected, the study from which the value was derived, and the year of the data used to estimate the elasticity of demand.

(C) Ms. Brown states that under Ramsey pricing principles, the residence dial tone line charge would most likely have increased in light of increasing competition. In light of the alleged increasing competition, provide Verizon's estimates of the marginal or incremental cost for the different products that would be included in a Ramsey pricing calculation (e.g, dial tone, exchange usage, vertical services, intraLATA toll, intrastate switched access, interstate switched access, special access). For each product, identify if the estimated cost is a short-run or long run value, the reason why a short-run or long run value was selected, the study from which the value was derived, and the study period for the cost data

AG-3-16 Reference Paula Brown's testimony of August 28, 2002, page 9, lines 23 to page 10 line 2. Ms. Brown states: "Current prices exceed marginal costs..."

(A) Provide the analysis that shows that current prices exceed marginal cost.

(B) Identify and provide the study associated with the cost data provided in response to part a of this question.

(C) Whereas Ms. Brown contends that the current price of residential service exceeds the marginal cost of production, provide the calculations that support the contention that it would be efficient to further increase the price of residential services.

AG-3-17 Reference Paula Brown's testimony of August 28, 2002, page 13, line 17. Provide Ms. Brown's estimate of the current efficient residence basic service price levels. Provide all work papers associated with the calculations and identify the source of the data used in the calculations.

AG-3-18 Reference Paula Brown's testimony of August 28, 2002, page 14, lines 15 to 16.

(A) Provide a narrative explanation of how Ms. Brown determined that the current rates are just and reasonable?

(B) Provide all supporting data associated with Ms. Brown's determination that the current rates are just and reasonable.

- AG-3-19 Reference Paula Brown's testimony of August 28, 2002, page 15 lines 7 to 9. Provide any and all studies that Ms. Brown has reviewed or produced that show that the current rates do not result in regulated services subsidizing competitive services.
- AG-3-20 Reference Paula Brown's testimony of August 28, 2002, Attachment A, Tab B, attachment III.
- (A) Provide Exhibit DTE VZ 1-10.
 - (B) Are the elasticity of demand estimates contained in DTE VZ 1-10 the most recent estimates available? If not, provide the more recent studies and explain why the Company has elected to not rely on the more recent studies.
 - (C) What year(s) of demand data was used to obtain the elasticity estimates contained in the exhibit?
 - (D) Are the elasticity estimates long-run or short-run values? Include in the response why either a long-run or short-run value was selected and support for the assertion that the values are long run or short run values.
 - (E) Would it be appropriate in a Ramsey pricing analysis to use short-run elasticity estimates but long-run elasticity estimates for the calculation of stimulation impacts? If so, explain why?
 - (F) Define the terms access and toll (w/OCP)
 - (G) The access E_p of $-.24$ was calculated as follows $-.30*(.04856/.03942)$. Provide an explanation of why this calculation was made. Why does this calculation provide the E_p for access?
- AG-3-21 Reference Paula Brown's testimony of August 28, 2002, Attachment B, Massachusetts Residence Services – Rate Comparison
- (A) With respect to RCN's plan 2, is the calling area associated with this plan equivalent to the calling area of Verizon's \$16.85 flat rate calling plan? If not, which Verizon plan is most similar to RCN's plan 2?
 - (B) With respect to RCN's plan 3, is the calling area associated with this plan equivalent to the calling area of Verizon's Suburban calling plan? If not, which Verizon plan is most similar to RCN's plan 3?
 - (C) With respect to AT&T's Rightpack, is the calling area associated with this plan equivalent to the calling area of Verizon's \$16.85 flat rate calling plan? If not, which Verizon plan is most similar to Rightpack?
 - (D) With respect to AT&T's Rightpack + Metro, is the calling area associated with this plan equivalent to the calling area of Verizon's Suburban calling plan? If not, which Verizon plan is most similar to AT&T's Rightpack + Metro?
 - (E) With respect to Broadview and Plan B Communications unlimited offerings, are the calling area associated with these plans equivalent to the calling area of Verizon's \$16.85 flat rate calling plan? If not, which Verizon plan is most similar to these two CLEC offerings?
 - (F) Assume that RCN's plan 2 provides the same calling area as Verizon's flat rate plan of \$16.85. Why would it be efficient for Verizon to raise the price of its flat rate

plan since RCN's service would be available at a lower rate?

(G) Assume that Broadview Network's and Plan B Communication's unlimited and flat rate plans provides the same calling area as Verizon's flat rate plan of \$16.85. Why would it be efficient for Verizon to raise the price of its flat rate plan since the CLEC service would be available at a lower rate?

AG-3-22 Provide Verizon's Engineering Handbook Customer Service ENB Manual.

AG-3-23 Provide Engineering Practice 901-350-250 (detailed distribution area planning).

September 6, 2002